

# ANALYSIS OF ORIGINAL BILL

## Franchise Tax Board

Author: Speier Analyst: Kristina E. North Bill Number: SB 1724  
Related Bills: See Legislative History Telephone: 845-6978 Introduced Date: February 21, 2002  
Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Business Expense Deduction Conformity/Disallow Lobbying and Political Expenses

### SUMMARY

This bill would deny a deduction for certain lobbying and political expenses.

### PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to conform to federal tax law and eliminate current state tax subsidies for lobbying expenses.

### EFFECTIVE/OPERATIVE DATE

This bill is a tax levy and would be effective immediately upon chaptering. It would apply to taxable years beginning on or after January 1, 2002.

### POSITION

Pending.

### ANALYSIS

#### FEDERAL/STATE LAW

**Current state and federal laws** generally allow a taxpayer engaged in a trade or business to deduct all expenses that are considered ordinary and necessary in conducting that trade or business.

Under **current state law**, the costs of representing a taxpayer's views on matters of direct interest to his or her business to individual Legislators, and the costs of communicating with an organization regarding legislation, are explicitly allowed as deductible business expenses. The portion of dues relating to lobbying activities performed by an organization also may be deducted. However, a taxpayer is prohibited from deducting any expenses incurred to influence the vote of the public or to participate in political campaigns. Under **current federal law**, none of these costs are deductible.

#### Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

#### Department Director

#### Date

Alan Hunter for GHG

03/27/02

## THIS BILL

**This bill** would conform state law to federal law. This bill would specify that deductible business expenses would not include costs incurred by a taxpayer to lobby the state Legislature, Congress, and state executive branches. **This bill** also would make code maintenance changes to existing subdivisions within these sections.

## IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

## **LEGISLATIVE HISTORY**

SB 964 (Hayden, 1993/1994) would have denied a deduction for certain lobbying and political expenses, but failed passage from the Senate Revenue and Taxation Committee.

AB 72 (Klehs and Bustamante, Stats. 1994, Ch. 851) would have denied a deduction for certain lobbying and political expenses, but the language regarding that deduction was eliminated from the bill in the January 14, 1994, amendment.

AB 1865 (Isenberg, et al., 1993/1994) would have denied a deduction for certain lobbying and political expenses, but failed passage from the Assembly Revenue and Taxation Committee.

## **OTHER STATES' INFORMATION**

*Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York* laws do not currently appear to permit the deduction for certain lobbying and political expenses. The laws of these states were reviewed because their tax laws are similar to California's income tax laws.

## **FISCAL IMPACT**

This bill would not significantly impact the department's costs.

## **ECONOMIC IMPACT**

### Revenue Estimate

Based on the data and assumptions below, order of magnitude revenue effects are estimated as follows:

Estimated Revenue Impact			
Years Beginning On or After January 1, 2002			
Enactment Assumed On or After June 30, 2002			
Fiscal Years			
(In Millions)			
	2002/2003	2003/2004	2004/2005
Lobbying Expense	\$7	\$7	\$7

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

This revenue estimate is based on the Joint Committee of Taxation estimate made for the same provision in the federal Revenue Reconciliation Act of 1993, prorated for California purposes and grown to 2002 and beyond.

**ARGUMENTS/POLICY CONCERNS**

As written, this bill would deny a deduction for costs to lobby the state Legislature, Congress, and state executive branches, but would not affect the costs of lobbying the federal or local executive branches or any local council or similar governing body.

**LEGISLATIVE STAFF CONTACT**

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